ROTHMANS OF PALL MALL CANADA LIMITED

ANNUAL MEETING

OF THE SHAREHOLDERS

TORONTO, ONTARIO, OCTOBER 14, 1971

REPORT OF THE PROCEEDINGS AND
THE ADDRESS OF THE
CHAIRMAN OF THE BOARD

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ROY HENRY NEWTON

Vice President Sales
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Vice President Public Relations
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Secretary and Assistant General Counsel
NORMAND ROBERT ZADRA

SUMMARY OF THE PROCEEDINGS OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF ROTHMANS OF PALL MALL CANADA LIMITED

The Annual General Meeting of Shareholders of the Company was held at the Royal York Hotel in Toronto on Thursday, October 14, 1971.

Mr. John H. Devlin presided over the meeting. The minutes of the Annual General Meeting of Shareholders held on October 15, 1970 were approved and adopted, and the Annual Report of the Directors, including the consolidated balance sheet, the consolidated statements of earnings, retained earnings and changes in working capital and auditors' report for the fiscal year ended June 30, 1971, was presented.

The Directors of the Company, whose terms of office expired at the meeting, were re-elected. Price Waterhouse & Co. were re-appointed as Auditors.

The Chairman's address has been printed for the benefit of those Shareholders who were unable to attend the meeting.

Your Board of Directors appreciated the co-operation of Shareholders in attending the meeting or in returning their proxies.

Toronto, Ontario
November 12, 1971

CHAIRMAN'S ADDRESS
J. H. DEVLIN

Ladies and gentlemen, welcome to the Eleventh Annual Meeting of Rothmans of Pall Mall since it became a public company.

Since you have undoubtedly all seen a copy of the annual report, I will only highlight the figures for the year. Including Canadian Breweries, consolidated sales amounted to $620 million and consolidated earnings amounted to $8,367,000. After providing for dividends on Preferred shares, earnings per Common share amounted to 43¢ compared to 76¢ in the previous year.

In view of this decline in per-share earnings, the Company did not make dividend payments to the shareholders of Common stock during this past financial year. As I stated at last year's annual meeting, it is the intention of your Board to re-institute dividend payments as soon as it can be justified by financial results.

Now I would like to deal with the tobacco operation, where your Company has shown spectacular improvement during the past year. Sales value reached $224 million, or a gain of 5.6 percent, and net earnings jumped to 49.5 percent to $6.5 million.

This sizeable improvement to profitability was largely due to increased sales volume and a price increase of 1¢ per pack which came into effect on January 4 of this year.

Last year on this occasion I said that we

could look forward to a resumption of our historic growth rate in the cigarette market and this prediction was accurate.

Unit cigarette sales increased by 445 million or 3.8 percent over the preceding financial year, and reached a total of 12,249 million cigarettes or an average of 1,021 million per month. Total industry sales over these same periods increased by 4.6 percent.

However, during the second half of the year under review, unit sales increased by 11.5 percent, while industry sales increased by 1 percent.

I am pleased to tell you that this rate of sales growth has continued into the first quarter of the new fiscal year, when unit sales were 7.6 percent higher than in the same quarter one year ago.

Rothmans King Size continues to be the largest selling king size cigarette in Canada and showed a sales increase of 25 percent compared to the previous year.

Our second major source of sales strength lies in the three members of the Craven family, Craven "A", Craven King Size and Craven Menthol, where combined sales for the year increased by 20 percent.

New brands introduced in the past year include Perilly's, Dunhill King Size, and Golden Virginia which have shown good promise in market tests, and all are now in the process of extending distribution.

The successful future of your Company's tobacco operations depends on our capability to increase the sales of existing

brands, and probe and experiment in the marketplace with new brands. We believe we have a good track record and, in co-operation with other members of the Rothmans World Group of Companies, we are constantly seeking, through our research laboratories, improvements to existing products as well as the development of new products.

You are all aware of Rothmans public service activities across Canada, and I would like to explain why these are important to your Company.

Over the past four or five years, your Company has gradually shifted a portion of its marketing budget from conventional advertising media to financial support of the arts, assistance to a variety of local community events, and the promotion of selected sports activities.

Each month we receive many letters of appreciation from all segments of the community, and we believe that your Company and its brands have gained considerably in public esteem as a result of this philosophy.

In addition, it has given us an opportunity to train our personnel and to develop effective promotional tools as alternatives to the usual advertising techniques which may not be available to the tobacco industry in the future.

In June of this year the Government proposed legislation to the House of Commons, known as the Cigarette Products Act, and it received routine first reading. In September the four major tobacco

companies announced a voluntary agreement to restrict advertising and promotional activities and to take certain other steps which will come into effect in the new year.

While there are many rules to this voluntary agreement, the major one is that there will be no cigarette advertising on radio or television after December 31 of this year, and the tobacco industry will limit advertising expenditures in the remaining media to 1971 levels.

Your Company agreed to participate in this voluntary action after very careful deliberation, and knowing that it could adversely affect many old friends, especially in radio, a medium which has contributed greatly to our growth. However, the alternative to voluntary steps appeared to be the inevitability of legislation which would have been severely restrictive.

These voluntary measures place the Canadian industry in much the same position as its counterparts in the United Kingdom and the United States, where mandatory or voluntary restrictions are already in effect. Furthermore, these voluntary measures meet many of the objectives of the proposed Federal legislation. In the light of these facts, it is hoped that Ottawa will no longer feel compelled to pursue the proposed legislation.

While this voluntary agreement precludes the use of some conventional marketing tools, your Company is well prepared to carry on the competitive battle in the marketplace.

We have embarked on a program to expand our present network of twelve regional sales offices across Canada, and immediate plans call for additional facilities in London, Sudbury, Saskatoon and Sherbrooke, with improved locations for the existing offices in Edmonton, Regina and Ottawa. These new facilities will improve our field sales activities.

We have also substantially increased our non-cigarette activities which now include British, American, Danish and Dutch pipe tobacco, Cuban, Dutch and Jamaican cigars, and the outstanding Dunhill line of tobacco products and accessories. Imported pipe tobacco sales alone increased by 72 percent in the first nine months of this year.

However, improved cigarette sales are vital to the future of our Company, and I am confident of our capability to continue our upward trend.

I would now like to deal with Canadian Breweries where, as you know, the results for the past year were unsatisfactory.

Total sales amounted to $396 million, showing a drop of 3 percent compared to the previous year. Net earnings before extraordinary items declined from $11.3 million to $9.1 million. After providing for extraordinary items, net earnings amounted to $6 million.

The decline in total sales and earnings was directly attributable to lower sales and earnings in the company's United States subsidiary, Carling Brewing Company Incorporated.

During the past 12 months many actions have been taken to improve the outlook for Carling Brewing in the United States. The Cleveland plant was closed in May, and the Head Office, formerly located at the Cleveland plant, was moved to Waltham, near Boston, and close to our modern brewery at Natick, Massachusetts. The Head Office move was completed in early August and was accompanied by a major reduction in overall staff, as well as a realignment of top management, which has streamlined and strengthened the headquarters operation.

All of the costs involved in the closure of the Cleveland plant and the move of the headquarters were charged to last year's earnings as extraordinary items of a non-recurring nature.

These moves have eliminated more than \$4 million from annual fixed costs, and Carling is now structured to face the major challenge ahead.

1. The company is one of the top ten in terms of sales volume in the United States.
2. Carling has spare capacity in excellent modern breweries which have a replacement cost of close to \$90 million in excess of book value. The total capital employed amounts to \$45 million.
3. If only one percent of the United States market could be captured at premium price, the gross margin on that volume alone would be approximately \$20 million per annum.

As you can see, the challenge is great but

the rewards for success are very sizeable. We believe we can improve the performance of the United States company, and the Management of Carling and Canadian Breweries is optimistically dedictated to this task.

While we still face this challenge in the United States, I am pleased to report major progress in other areas in the past year.

In Canada, Canadian Breweries reversed its historic downward market trend and, for the first time in 12 years, increased its share of market. Sales increased by 7.1 percent and earnings improved to $6,459,000.

Earlier this month, Canadian Breweries completed the purchase of Doran's Northern Ontario Breweries, which presently operates breweries in Sudbury, Sault Ste. Marie, Timmins and Thunder Bay.

In Ireland, Beamish and Crawford showed major improvement with a sales increase of 37.6 percent, and the company is operating on a profitable basis for the first time in 8 years.

Carling Black Label sales are rising in international markets as well as in markets where the brand is franchised, and a new agreement was made recently to brew and market Black Label in Malta.

After considerable research on ways to more advantageously invest non-brewing assets, Canadian Breweries has made a $13.5 million investment in the oil and gas industry through the purchase of Phillips Brothers Oil and Gas Ltd. of Calgary, Alberta. With a growing world demand for

energy, the natural resources industry appears to be a very attractive long-term investment.

While the land holdings are important for the future, the Phillips Company is profitable; therefore, Canadian Breweries derives immediate earnings from this investment.

In late September, Canadian Breweries announced that they had entered into a long-term co-operation agreement with Carlsberg-Tuborg Breweries of Copenhagen, Denmark.

This agreement has important implications for Canadian Breweries in the markets where Canadian Breweries now operates, namely, Canada, the United States and Ireland.

Carlsberg-Tuborg are the largest exporters of beer in the world and have an international reputation for their brewing research and technology, and the superior quality of their products sold around the world under the Carlsberg and Tuborg labels.

Under the terms of the agreement, Canadian Breweries will have access to all of the present as well as future knowledge and experience of Carlsberg-Tuborg. Brewers, engineers, architects and scientists from Copenhagen will work in close co-operation with Canadian Breweries' technical staff in North America and Ireland, and we believe the sharing of knowledge will be advantageous to both companies.

The agreement can ultimately lead to the

production of these world-famous trademarks by Canadian Breweries. Carlsberg now brew locally in Brazil, Malawi, Nigeria, Cyprus and Malaysia, and a new brewery is under construction in England. Tuborg brew locally in Turkey, Iran and Yugoslavia.

We are also discussing with Carlsberg the possible production in Copenhagen of Carling Black Label to serve some of our European export markets.

While we do not expect the agreement to be finalized before the end of this month, the liaison between these two great international brewing groups—Carlsberg-Tuborg and Canadian Breweries—can lead to exciting opportunities for the future.

As you can see, the past 12 months have been busy ones for the employees of Canadian Breweries and Rothmans and, on behalf of the Boards of both Companies, I would like to thank all employees for their dedication and loyalty. I would also like to extend to our shareholders our most sincere thanks for their loyal support.